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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED DECEMBER 31, 1947

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MARSHALL FIELD & COMPANY

1947

ANNUAL REPORT
TO SHAREHOLDERS

General Offices
25 East Washington Street
Chicago 2, Illinois

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 *Incorporated in 1901*

A notice of the annual meeting of shareholders, to be held on April 27, 1948, together with a proxy statement and form of proxy will be mailed to shareholders on or about March 25, 1948. Proxies will be solicited by the management.

General Counsel
WILSON & McILVAINE
CHICAGO

Public Accountants
ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO

GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO

BANKERS TRUST COMPANY
NEW YORK

BOARD OF DIRECTORS

ALBERT B. DICK, JR.	CHARLES Y. FREEMAN	JAMES L. PALMER
MARSHALL FIELD	HENRY P. ISHAM	JAMES SIMPSON, JR.
STANLEY FIELD	HUGHSTON M. McBAIN	JOHN P. WILSON

OFFICERS

President

HUGHSTON M. McBAIN

Executive Vice President

JAMES L. PALMER

Vice Presidents

AUSTIN T. GRAVES HAROLD J. NUTTING
LUTHER H. HODGES JEAN L. SCHUREMAN WILLIAM S. STREET

Divisional Vice Presidents

GARRET L. BERGEN	Personnel Manager	Chicago Stores
HECTOR A. ESCOBOSA	General Manager	Frederick & Nelson
LAWRENCE B. SIZER	Sales Promotion Manager	Chicago Stores
HAROLD W. WHITCOMB	Assistant General Manager	Fieldcrest Mills

Treasurer

EARL KRIBBEN

Comptroller

JOHN D. ANDERSEN

Secretary

RALPH E. BOWERS

Assistant Vice President

MILTON C. MUMFORD

Assistant to the President

GERALD A. SIVAGE

Assistant Treasurer

CHARLES M. RHODES

Assistant Comptroller

JAMES C. WALSH

Assistant Secretary

VOLKER KOCH-WESER

SUMMARY OF FINANCIAL DATA

	1947	1946
Cash and Government Securities	$ 8,800,000	$ 14,700,000
Merchandise Inventories	26,600,000	24,100,000
Merchandise on Order	15,100,000	16,400,000
Accounts Receivable	23,700,000	20,000,000
Net Working Capital	33,000,000	32,000,000
Fixed Assets	38,700,000	33,700,000
Expenditures for Plant and Equipment	6,800,000	3,600,000
Depreciation	1,800,000	1,400,000
Current Liabilities	26,000,000	26,900,000
Funded Debt	0	0
Capital Stock and Paid-in Surplus	41,000,000	41,000,000
Earned Surplus	21,100,000	15,000,000
Reserves	11,600,000	11,200,000
Net Worth and Reserves	73,700,000	67,300,000

TO THE SHAREHOLDERS

The Board of Directors submits this annual report for the year ended December 31, 1947.

Our operating results are summarized in the following table:

	1947	1946
NET SALES	$211,403,000	$196,860,000
Wages and employe benefit costs	54,153,000	46,099,000
Other operating costs	138,126,000	128,091,000
Federal income taxes	7,267,000	8,615,000
Provision for inventory price decline	1,300,000	2,507,000
NET INCOME	10,557,000	11,549,000
Dividends paid	4,525,000	5,983,000
Income retained for needs of business	6,032,000	5,566,000

The decline in net income was due largely to higher wage and salary levels. A decrease in gross profit margin and increases in the unit costs of various supplies and services also were contributing factors.

Net income per Common Share after preferred dividend requirements was $5.10 in 1947 compared with $5.61 in 1946 and $2.35 in 1945. Dividends paid per Common Share were $2.00 compared with $2.75 in 1946 and $1.10 in 1945. The 50 cent quarterly dividend established in 1946 was continued throughout 1947. Your directors thought it prudent to omit any year end extra dividend in 1947. The reasons behind this decision were as follows:

1. Increasingly heavy demands upon funds to finance larger inventories and customer accounts receivable. These involved an additional $6,100,000 at December 31.
2. Current high replacement costs of plant and equipment. These costs have doubled on the average, making it necessary to retain in the business substantially greater amounts of income than in prewar years in order to maintain modern and competitive facilities.

Total expenditures for building, equipment, machinery and other capital goods during 1947 amounted to approximately $6,800,000. We now have plans for similar expenditures in 1948 approximating $5,000,000.

Our 1947 operations resulted in further strengthening of the Company's financial position. Increases in inventories and accounts receivable, and expenditures for plant improvement and modernization were financed entirely out of earnings and cash on hand.

Because of the possibility that our cash requirements at some future date may exceed available funds we arranged a $10,000,000 credit with banks in September 1947, carrying low interest rates and other favorable provisions, and available for an eight-year period.

The Company's cash balance at the end of 1947 was slightly less than $8,800,000. This compared with a total of cash and Government securities at the end of 1946 of $14,700,000. Inventories increased about 10% during the year, and were $26,600,000 at the year end. Receivables from customers increased from $20,000,000 to $23,700,000 during the year, due in part to a relatively large increase in credit sales and in part to removal of Government controls. Collection ratios, though lower than in 1946, primarily as a result of the removal of controls, continued to be favorable.

Merchandise on order on December 31, 1947 amounted to $15,100,000 compared with $16,400,000 at the end of 1946. We continue to pursue as conservative a buying practice as is consistent with our traditional policy of providing customers with wide assortments of wanted merchandise.

Because the prices of merchandise advanced generally during the year, and in anticipation of price declines at some future date, we set aside $1,300,000 out of 1947 earnings, thereby increasing our reserve against inventory price decline to $7,300,000.

The Company, as planned, made payments in 1947 approximating $3,500,000 toward the cost of its employe Retirement Program. This compares with payments of $3,100,000 in 1946.

CHICAGO AND SUBURBAN STORES

These stores in 1947 experienced a good year but earned a lower net income than in 1946, due primarily to higher wage levels. Improvements made in recent years in our methods of compensating executives and supervisors, by which compensation is related more closely to operating results, in our judgment have contributed materially to the efficiency of management in this, as well as in other divisions of the Company.

Our hope that our new escalator in the Main Store would be in service for the 1947 Christmas season was only partly realized. Delays in obtaining materials and labor permitted its completion to the fourth floor only, but that portion facilitated Christmas shopping for thousands of customers. The remainder should be completed in a very few months.

During 1947 we made progress toward completing the relighting and air-conditioning program on the first floor in the Main Store, including the Store for Men. The amount of light has been increased about threefold, while its cost has been decreased about one third.

We now plan to air-condition a number of our apparel and accessory sections and two of our principal tea rooms.

During 1947 we moved a large part of our Chicago warehousing operations, which had been scattered through several leased premises, into the new property purchased for that purpose, located about three miles southwest of the Chicago Loop. Substantial operating savings and improved customer service should result from this consolidation.

We were glad to be able to re-establish our famous "Fashions of the Hour" booklet for the 1947 Christmas season. Net sales realized as a direct result of this popular mailing piece were highly gratifying. It is our hope to continue its publication two or three times a year hereafter.

Several promotions in the executive staff of the Chicago and Suburban Stores were announced at the close of the year. Mr. Harold J. Nutting was named General Manager. Mr. Nutting is a vice president of the Company and has been General Merchandise Manager of these stores during the past four years. He has been with the Company since 1924 in various important merchandising positions.

Mr. Jean L. Schureman was appointed General Merchandise Manager to succeed Mr. Nutting. He has been senior Assistant General Merchandise Manager, and early in the year was elected a vice president of the Company. He has been with the Company since 1923.

Mr. Paul M. Hammaker was appointed senior Assistant General Merchandise Manager, succeeding to Mr. Schureman's former position, and Mr. Richard C. Bond was named an Assistant General Merchandise Manager.

Mr. William L. English, formerly Chief Accountant, was appointed Divisional Comptroller.

FREDERICK & NELSON

The dollar net sales of the store in Seattle were almost equal to the volume of the preceding year despite a decline in number of transactions. As in the Chicago stores, wage levels and certain other unit costs were higher than in 1946. Nevertheless, the net income for the year was satisfactory, due primarily to a well-conceived program of expense control.

The first Frederick & Nelson escalator installation, which serves all selling floors, was finished during the year and has resulted in many compliments from customers and employes. We now have better vertical transportation than ever in the store and have been able to close permanently four passenger elevators.

During its first full year of operation the Frederick & Nelson suburban store located in Bellevue, Washington, produced satisfactory sales and net income.

FIELDCREST MILLS

For 1947 our Fieldcrest Mills reported a larger percentage gain in sales than any other division and ended the year with approximately 40% more unfilled orders on their books than was the case at the end of the preceding year.

Despite the substantial sales increase of the Mills, the net income realized by the division was less than in 1946, due mainly to a sharp drop in the gross profit margin. This in turn was caused primarily by two rather substantial wage increases granted to most of our employes during the year: 10% in March, and 9% in November. Together these added more than two million dollars annually to our plant payroll. These wage in-

creases were absorbed in considerable part by the Company. We continued a conservative pricing policy even though demand exceeded supply for most of the products we manufacture. All our mills, excepting one, showed satisfactory operating results for the year.

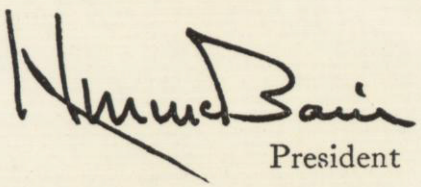
Mr. G. Lawson Ivie was appointed General Sales Manager, succeeding Mr. Robert T. Graham, who was transferred to Chicago. Mr. Ivie has been with the Company since 1916 and will continue to make his office at the Fieldcrest Mills sales headquarters in New York City.

GENERAL COMMENTS

We possess no greater skill than others in the art of forecasting. Early in 1948 we find conditions good in the industries of which we are a part. We are moderately optimistic about the level of business in the months immediately ahead, though we expect the pressure of rising costs upon earnings to be heavy. We are concerned about inflation, and we believe that the longer inflationary tendencies prevail the greater the ultimate threat to our whole economy. Whether the economic and other hazards inherent in a period such as we have been passing through will give rise to serious problems for us during the next year or two we do not know. We believe the possibility is sufficiently great to warrant the use of all practicable caution in the formulation of our plans and policies.

In conclusion I wish once again to say how grateful we are for the loyalty, industry, and resourcefulness of our executives and other employes, without whose efforts we would have been unable to serve the needs of our customers properly. We have complete faith in the ability of our staff to meet intelligently and energetically whatever problems may confront us in the future.

By order of the Board of Directors,

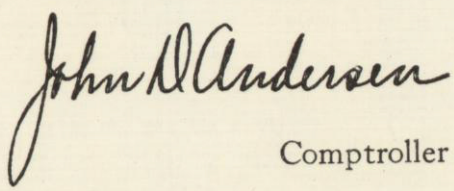


President

February 19, 1948

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.



Comptroller

February 19, 1948

Income Statement

For the Years Ended December 31, 1947 and 1946

	1947	1946
NET SALES	$211,402,847	$196,860,077
DEDUCT:		
Materials and services purchased from others	$134,643,451	$124,962,105
Wages, salaries and employe benefit costs (see footnote)	54,152,552	46,098,948
Provision for depreciation and amortization	1,758,088	1,441,163
Taxes, other than social security and Federal income taxes	1,724,913	1,687,755
Federal income taxes (see footnote)	7,267,060	8,614,640
Provision for possible future decline in market value of inventories	1,300,000	2,506,817
	$200,846,064	$185,311,428
NET INCOME FOR THE YEAR	$ 10,556,783	$ 11,548,649

FOOTNOTE:

The portions of the past service costs of the Pension Plan paid in 1947 and 1946 are not included in wages, salaries and employe benefit costs and have not been deducted in determining the provisions for Federal income taxes. These payments, amounting to $1,520,000 in 1947 and $1,580,000 in 1946, less the reduction in taxes resulting therefrom, have been charged to a reserve. The Federal income taxes payable after deducting these payments are estimated at $6,689,460 in 1947 and $8,014,240 in 1946.

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1947, and the statements of income, earned surplus and reserves for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year ended December 31, 1946.

In our opinion, the accompanying balance sheet and related statements of income, earned surplus and reserves present fairly the position of Marshall Field & Company at December 31, 1947 and the results of its operations for the fiscal year, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 6, 1948.

BALANCE SHEETS—DEC

ASSETS

	1947	1946
CURRENT ASSETS:		
Cash	$ 8,757,455	$ 9,795,191
United States Government securities, at cost	—	4,940,888
Receivables from customers and others, less reserves	23,656,503	20,043,555
Merchandise inventories, priced at the lower of cost or market	26,568,539	24,077,703
TOTAL CURRENT ASSETS	$58,982,497	$58,857,337
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC	$ 1,999,664	$ 1,577,187

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization		
Land	$16,314,549	$ —	$16,314,549	$16,247,722
Leaseholds	730,846	148,303	582,543	591,438
Buildings and building equipment	26,560,604	13,824,467	12,736,137	9,699,832
Equipment	15,614,306	6,525,916	9,088,390	7,197,300
TOTAL FIXED ASSETS	$59,220,305	$20,498,686	$38,721,619	$33,736,292
GOODWILL, TRADEMARKS, ETC			$ 1	$ 1
			$99,703,781	$94,170,817

MBER 31, 1947 AND 1946

LIABILITIES

	1947	1946
Current Liabilities:		
Accounts payable	$ 8,992,726	$ 9,081,555
Accrued Federal income taxes	9,670,305	10,999,881
Other accrued liabilities	7,354,549	6,792,537
Total Current Liabilities	$26,017,580	$26,873,973
Reserves:		
For possible future decline in market value of inventories, etc.	$ 7,300,000	$ 6,000,000
For estimated net past service cost of Pension Plan	4,286,839	5,229,239
	$11,586,839	$11,229,239
Capital Stock and Surplus:		
Cumulative Preferred Shares— Authorized 300,000 shares of $100 par value, issuable in series—4¼% Series; redeemable at premiums per share of $9.00 through March 31, 1950; $6.50 through March 31, 1955, and $4.00 thereafter; issued and outstanding 150,000 shares	$15,000,000	$15,000,000
Common Shares— Authorized 4,000,000 shares of no par value, of which 180,000 shares may be sold to officers or employes without first offering such shares to the shareholders; issued and outstanding 1,943,763 shares at stated value	16,818,815	16,818,815
Paid-in surplus	9,207,179	9,207,179
Earned surplus ($6,000,000 not available for dividends on Common Shares as long as Cumulative Preferred Shares are outstanding)	21,073,368	15,041,611
	$62,099,362	$56,067,605
	$99,703,781	$94,170,817

Statement of Earned Surplus and Reserves
For the Year Ended December 31, 1947

Earned Surplus

Balance at December 31, 1946		$15,041,611
Net income for the year		10,556,783
		$25,598,394
Cash dividends declared on—		
Cumulative Preferred Shares, 4¼% Series	$ 637,500	
Common Shares ($2.00 per share)	3,887,526	4,525,026
Balance at December 31, 1947		$21,073,368

Reserve for Possible Future Decline in Market Value of Inventories, Etc.

Balance at December 31, 1946	$ 6,000,000
Increase in reserve provided out of 1947 income	1,300,000
Balance at December 31, 1947	$ 7,300,000

Reserve for Estimated Net Past Service Cost of Pension Plan

Balance at December 31, 1946	$ 5,229,239
Amount of past service cost paid in 1947 ($1,520,000) less reduction in Federal income tax ($577,600) resulting therefrom	942,400
Balance at December 31, 1947	$ 4,286,839